



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
B9/25C

19 May 2017

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Prudential Measures for Property Mortgage Loans

The Hong Kong Monetary Authority (HKMA) has been monitoring the property and mortgage markets in Hong Kong closely. After a brief correction between October 2015 and March 2016, property prices have resumed its rising trend since then. By the end of March 2017, property prices have surpassed the recent peak recorded in September 2015 by 4.5%, based on the statistics of the Rating and Valuation Department. Transaction volume has also increased significantly since early 2017.

It is also observed that the competition for mortgage business in the banking sector has been increasingly keen. The long term sustainability of the interest margins on mortgage lending has been under growing pressure. The reduced profitability of mortgage lending means that less capital can be generated from this line of business, weakening the ability of authorized institutions (AIs) to cope with a possible market downturn in the future. At the same time, it is noted that the numbers of mortgage loans extended by AIs involving borrowers with multiple mortgages or with income derived from outside of Hong Kong have increased recently. These mortgages are usually associated with higher credit risks.

In view of these developments, the HKMA considers it necessary to introduce the following new measures to strengthen the risk management of AIs and safeguard banking stability:

- (1) For AIs using Internal Ratings-Based Approach to calculate capital charges for credit risk: to raise the risk-weight floor from 15% to 25% for new residential mortgage loans approved after 19 May 2017. The HKMA will separately write to these AIs to advise the details of the arrangement;

- (2) For all AIs: to lower the applicable loan-to-value ratio (LTV) cap by 10 percentage points for property mortgage loans involving borrowers and/or guarantors with one or more pre-existing mortgage loans, in addition to the existing requirement of lowering the applicable debt servicing ratio (DSR) limit by 10 percentage points for these loans;
- (3) For all AIs: to lower the applicable DSR limit by 10 percentage points for property mortgage loans extended to borrowers whose income is mainly derived from outside of Hong Kong, on top of the existing requirement of lowering the applicable LTV cap by 10 percentage points for these loans.

The above new measures take immediate effect. To avoid causing hardship to mortgage applicants who have signed provisional sale and purchase agreements on or before the date of this circular, AIs may assess the mortgage applications of these applicants based on their existing underwriting criteria for the purpose of complying with measures (2) and (3).

A table showing the changes in the applicable LTV caps and DSR limits under the new measures is set out in the **Annex**. Should your institution have any questions about this circular, please send them to the email account of the HKMA (rml_hkma@hkma.gov.hk).

Yours faithfully,

Arthur Yuen
Deputy Chief Executive

Encl.

**Loan-to-Value Ratio (LTV) caps and Debt Servicing Ratio (DSR) limits
for property mortgage loans with effect on 19 May 2017**

Table 1: LTV caps

Property value	Residential properties				Commercial and industrial properties, and car parks	
	Self-use		Non-self-use or company held			
	Applicants whose income is mainly derived		Applicants whose income is mainly derived		Applicants whose income is mainly derived	
	in HK	from outside of HK ¹	in HK	from outside of HK ¹	in HK	from outside of HK ¹
Applicants who have <u>not</u> borrowed or guaranteed other outstanding mortgage(s) at the time of making a mortgage application ²						
DSR-based lending						
< HK\$10 million	60% (subject to a loan cap of HK\$5 million)	50% (subject to a loan cap of HK\$4 million)	50%	40%	40%	30%
≥ HK\$10 million	50%	40%				
Net worth-based lending						
Regardless of value	40%				30%	
Applicants who have borrowed or guaranteed other outstanding mortgage(s) at the time of making a mortgage application						
DSR-based lending						
< HK\$10 million	60% 50% (subject to a loan cap of HK\$5 4 million)	40% (subject to a loan cap of HK\$3 million)	50% 40%	30%	40% 30%	20%
≥ HK\$10 million	50% 40%	30%				
Net worth-based lending						
Regardless of value	30%				20%	

**Loan-to-Value Ratio (LTV) caps and Debt Servicing Ratio (DSR) limits
for property mortgage loans with effect on 19 May 2017**

Table 2: DSR limits

	Residential, commercial and industrial properties, and car parks			
	Self-use^{3, 4}		Non-self-use	
	Applicants' income mainly derived		Applicants' income mainly derived	
	in HK	from outside of HK¹	in HK	from outside of HK¹
Applicants who have <u>not</u> borrowed or guaranteed other outstanding mortgage(s) at the time of making a mortgage application²				
Base DSR limit	50%	50% 40%	40%	40% 30%
Stressed DSR limit (assuming a 300-basis point hike in interest rate)	60%	60% 50%	50%	50% 40%
Applicants who have borrowed or guaranteed other outstanding mortgage(s) at the time of making a mortgage application				
Base DSR limit	40%	40% 30%	40%	40% 30%
Stressed DSR limit (assuming a 300-basis point hike in interest rate)	50%	50% 40%	50%	50% 40%

Notes:

- Applicants will not be subject to the reduction if they can demonstrate having a close connection with Hong Kong, e.g. they are seconded by local employers to work outside Hong Kong with documentary proof provided by the employers; or their immediate family members (i.e. parents, spouse and descendants) are residing in Hong Kong.
- The limits are applicable to a borrower who has 1 property under mortgage and is making a mortgage application for either (i) refinancing; or (ii) acquiring a new property before disposing the existing one. In the latter case, the applicant has to repay the outstanding mortgage loan for the existing property within 6 months upon the drawdown of the mortgage loan for the new property.
- "Self-use" refers to occupancy by the owners or their immediate family members (i.e. parents, spouse, children and siblings), or by an individual majority shareholder or his/her immediate family members if the property is held by a shell company.
- For operating companies seeking mortgages or other credit facilities secured by self-use commercial or industrial properties to support the business or funding needs of their normal business operations, authorized institutions adopt a set of more comprehensive credit underwriting standards and assessment, and conduct closer credit monitoring and more frequent credit reviews that are applicable to corporate borrowers. The above countercyclical measures do not apply in these cases.